



EBA BS 2023 107 rev. 1

Board of Supervisors

27 January 2023

Location: teleconference

Board of Supervisors 27 January 2023 – Minutes

Agenda item 1: Welcome and Declaration of conflict of interest

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS). He clarified that the purpose of the ad hoc BoS conference call was to approve the macroeconomic scenario and the market risk shocks for the 2023 EU-wide stress test and the key communication lines and to discuss the proposal for changing the reference rate pass-through for household and NFC sight deposits.
2. The Chairperson welcomed new Voting Members representing France – Ms Nathalie Aufauvre, Latvia – Ms Kristine Cernaja-Mezmale, the Netherlands – Mr Steven Maijoor and Portugal – Mr Rui Pinto as well as new Alternates representing Portugal – Mr Jose Rosas and the Netherlands – Ms Willemieke van Gorkum.
3. No Member declared a conflict of interest.
4. None of the Members raised comments on the Agenda.

Conclusion

5. The BoS approved the Agenda of the ad hoc BoS conference call.

Agenda item 2: Approval of macroeconomic scenario and market risk shocks for the 2023 EU wide stress test and Key communication lines on the 2023 EU wide stress test

6. The Chairperson introduced the item by informing the Members that the ESRB General Board discussed and approved the macro-economic adverse scenario during the ESRB call on 23 January 2023. He thanked the ESRB/ECB for the preparation of the macro-economic scenarios and the market risk scenario and welcomed the close and good cooperation between the EBA and ECB and ESRB. With regards to the scenario, the Chairperson said that the proposed adverse scenario represented to him an appropriate scenario considering the current
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economic reality. It was severe, plausible and in line with the risk and vulnerabilities that might threaten the EU banking sector. He reminded the BoS of the main aim of the stress test – to test the resilience of the banking sector and also assess whether banks' capital buffers sufficient were to cover losses and support the economy in stressed times. Finally, he noted the new feature of the exercise – the sectoral scenarios which should help to increase supervisory scrutiny of banks' exposures to certain economic sectors.

7. A presentation by the Chair of the ESRB Task Force on Stress Testing followed. In his presentation, he described the development process for the scenarios and then focused on its main aspects. He said that the adverse scenario set out paths for key economic and financial variables in a hypothetical adverse situation which may affect the EU banking system. It should not be considered a forecast of any likely negative shocks to the financial system. Scenario variables include the evolution of real GDP, inflation, unemployment rates, real estate prices, stock prices, exchange rates, interest rates and real Gross Value Added (GVA) for selected economic sectors. It covers three years from 2023 to 2025 in line with the EBA stress test methodology. The baseline macro-financial scenario for EU countries was based on the December 2022 projections from the EU national central banks.
8. The EBA Head of Risk Analysis and Stress Testing Unit (RAST) summarised the key communications lines on the objectives of the 2023 EU-wide stress test. He said that the EBA was planning to launch the 2023 EU-wide stress test on 31 January 2023, including the publication of the macro-financial scenario and FAQs. The publication date for 2023 EU-wide stress test results would be at the end of July. The final submission of stress test results to the EBA was planned for mid-July. In the external communication, the EBA proposed to refer to the purposes of the exercise (such as a consistent comparison and assessment of the resilience of EU banks to relevant economic shocks; transparency and fostering of market discipline, or providing input to the SREP) as well as mentioning that the exercise would be conducted on a larger sample compared to previous years - covering a total of 70 EU banks and 75% of total banking assets in the EU. The communication would include a brief comparison with the scenario from the 2021 exercise and explain that the major difference is represented by the path followed by interest rates and inflation. The communications should also mention that for the first time the macroeconomic scenario included information on the growth of Gross Value Added (GVA) in 16 economic sectors. The main purpose of the breakdown by sector was to ensure that the results of the stress test reflected banks' exposures toward different sectors and hence the realism of the bank specific impacts from the exercise.
9. The BoS supported the scenario and the indicated key communication elements. With regard to the scenario, one Member welcomed the consistency of projections for single countries. Two Members raised concerns, in particular related to the plausibility of the scenario and said that some features were either very extreme, or not sufficiently explained. One Member asked for a precise and explanatory communication stating the rationale behind the scenario. Another Member expressed the view that there was significant dispersion across countries on the evolution of the GDP during the three years of the scenario and that the assumptions on the interest rates were not severe enough. One Member said that there were some differences in

the evolution of the GDP by countries and in some cases the narrative and risk assessment was not consistent on the residential real estate. On communication, one Member stressed that it should be mentioned that this is the most severe adverse scenario of an EBA stress test exercise up to now. The high severity should however not be an indication of a perceived high EU vulnerability. Hence it should be clearly stated that the scenario of the stress test is hypothetical. The same Member noted that the increased severity in stress tests over time rose an issue in terms of plausibility, and that a reflection by the BoS was needed in view of future exercises. Some Members pointed out that it was important to ensure clear communication regarding the country heterogeneity, GDP growth rates, inflation, risk premia and the persistence of shocks.

10. The ECB Banking Supervision representative supported the calibration of the scenario as presented.
11. The ESRB representative noted that in relation to plausibility on short term rates, and also on long term rates, there was a need to use data on high inflation that has not been available since the Monetary Union was set up.
12. The Chairperson concluded by noting the BoS's broad support for the scenario. He asked the Members to send their comments on the communication after the conference call and informed that the EBA would send the updated press release and FAQs for a final fatal flaw review by the BoS by Monday, 30 January noon.

Conclusion

13. The BoS approved the baseline/adverse macro-financial and the adverse market risk scenario for the 2023 EU-wide stress test by consensus.
14. The BoS approved the key elements of the communication of the 2023 EU-wide stress test by consensus.

Agenda item 3: Proposal for changing the pass-through for household and NFC sight deposits

15. The Chairperson introduced the item by summarising the proposal to reduce the reference rate pass-through of sight deposits of households and non-financial corporations from 100% to 50% and 75%, respectively, in the stress test methodology.
16. The Head of RAST continued by explaining that the EBA and the ECB Banking supervision have analysed the evidence on pass-through rates for bank deposits using MIR and IMIR data. The analysis, which has been conducted using a variety of empirical methods, indicated that a 100% pass-through of higher interest rates to sight deposit rates was not supported by empirical evidence. Reflecting these findings, the proposal was to change the reference rate pass-through for sight deposits in the stress test methodology to 50% for households and 75% for non-financial corporates sight deposits. If approved by the BoS, the final methodology

would be updated accordingly before being re-published on the EBA website at the launch of the exercise.

17. A presentation by the ECB Banking supervision expert followed. He noted that empirical analyses presented in the literature witnessed a lower pass-through rates historically than in the methodology. Furthermore, he presented an impact analysis with data from the 2021 EU-wide stress test.
18. The BoS supported the proposed change in the methodology. One Member noted that the proposal better reflected market developments and rising interest rates and that it was more consistent with the fact that banks' profitability has increased in the short term when interest rates rose. The proposal also fitted in with the narrative. Other Member was of the view that the lower reference rate pass-through remained very conservative and could be lowered even more and as result, become more realistic. Some Members had mixed views and while agreeing to lower the pass-through, they stressed that more analysis should follow after the 2023 stress test learning also from the experience of this exercise. One Member did not support the proposal, in particular being submitted at the very end of the preparatory process and said that maintaining the current pass-through was the most prudent approach.
19. The ECB Banking Supervision representative supported the tabled proposal.
20. The Chairperson concluded by noting the support of the BoS for the proposed change in the methodology. He referred to the views of some Members that highlighted the importance of having empirical evidence and evidence-based decisions and said that the EBA would further work on the topic.

Conclusion

21. The BoS approved the suggested changes to the reference rate pass-through methodology by consensus.
22. **Agenda item 4: AOB**
23. The Head of RAST informed the BoS that after the conference call, the EBA was planning to share a note with the BoS for information on the treatment of maturing TLTRO in the stress test.

Participants of the Board of Supervisors' ad hoc conference call 27 January 2023¹

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Michael Hysek	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/Kurt Van Raemdonck	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinić Turković	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Zuzana Silberova	
7. Denmark	Thomas Worm Andersen	Morten Rasmussen
8. Estonia	Kilvar Kessler	Timo Kosenko
9. Finland		
10. France	Nathalie Aufauvre	
11. Germany	Raimund Roeseler	Karlheinz Walch
12. Greece	Heather Gibson/Kyriaki Flesiopoulou	
13. Hungary	Csaba Kandrac	
14. Ireland		
15. Italy	Francesco Cannata	
16. Latvia	Kristine Cernaja-Mezmale	
17. Lithuania	Simonas Krepsta/Renata Bagdoniene	
18. Luxembourg	Nele Mayer	Christian Friedrich
19. Malta	Christopher Buttigieg	Alan Cassar
20. Netherlands	Steven Maijoor/Willemieke van Gorkum	
21. Poland	Kamil Liberadzki	Olga Szczepanska
22. Portugal	Jose Rosas	
23. Romania	Catalin Davidescu	
24. Slovakia		
25. Slovenia	Primoz Dolenc/Damjana Igljic	
26. Spain	Angel Estrada	
27. Sweden	Karin Lundberg	David Forsman

EFTA Countries	Member
1. Iceland	
2. Liechtenstein	
3. Norway	Morten Baltzersen/Ann Viljugrein

Observer	Representative
1. SRB	Sebastiano Laviola

Other Non-voting Members	Representative
1. ECB/SSM	Stefan Walter, Carmelo Salleo
2. European Commission	Almoro Rubin De Cervin

¹ Martin Hafner-Guth (OeNB); Liga Kleinberga (Financial and Capital Market Commission); Eida Mullins, Branko Sucevic (Central Bank of Ireland); Pawel Gąsiorowski (Narodowy Bank Polski); Pascal Hartmann (FMA); Christian Elbers (BaFin); Emilio Hellmers (ESRB); Kristian Kjeldsen (SRB); Nadya Wildmann (ECB SSM); Hanna Freystatter (Bank of Finland); Luca Serafini (Banca d'Italia); Katarina Klacanska (NBS); Marek Sokol (CNB)



3. EIOPA
4. ESMA
5. EFTA Surveillance Authority Marta Margret Rúnarsdóttir
6. ESRB Andreas Westphal

EBA

Executive Director
Director of Economic and Risk Analysis Department

Francois-Louis Michaud
Jacob Gyntelberg

Heads of Unit

Angel Monzon; Philippe Allard

EBA experts

Tea Eger

For the Board of Supervisors

Done at Paris on 16 March 2023

[signed]

José Manuel Campa

EBA Chairperson